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SPANISH CURRENCY.¹

WELL-CONDUCTED governments are, perhaps, not those which have caused the greatest advances in economic science. Unlike physicists and chemists, economists are unable to resort to the expedient of conducting for themselves, in a laboratory, all the experiments required in investigating or demonstrating the laws which interest them. They are confined to mere observation of the results flowing from the experiments to which the public powers in different parts of the world lend themselves; and if none but very wise legislators and model administrators had ever existed, our economists would have seen themselves deprived, by this fact alone, of their most reliable means of investigation and of proof. The confidence acquired in the principles which they have laid down as the embodiment of the collective interests of the human race depends, above all, upon the observation of the evils which inevitably result from every breach of these essential principles.

Let us hasten to add that political economy has seldom had to upbraid statesmen with that unerring wisdom which would unduly limit its field of study. There is not a single nation whose interests—material and other—have not more than once been entrusted to extremely bad hands and, for the very reason that this disgrace has been suffered by every one of them, ought

¹ Translated from the French manuscript by H. Parker Willis.

they far rather mutually to pity, than to pass severe judgment upon, one another. There is the more reason for charity in such cases since fatal consequences may be brought about without our having given to criminals or to fools the control over our destiny. We see well-meaning men cut a sorry figure as public officers, merely because they lack either foresight or strength of will. Nowhere is this observation more valid than in financial matters. It was a favorite saying of M. Thiers that to make a capable finance minister a man must know how to be fierce ; but it is furthermore necessary that he possess the power of being so. Inflexible uprightness in those who are its servants is not easily borne by despotism. Nor is parliamentary government more tolerant, for temptation under a constitutional system is so frequent, and responsibility so widely partitioned, that this perhaps more than any other sort of government, sacrifices future necessities to current needs.

For all that, weakness and imprudence have their degrees ; and, on either side of the Atlantic, the nations of the south seem, at the present day, not to have put so far from them as have others, the art of getting themselves into trouble. This conclusion is reached by a comparison of South with North America. It follows equally as clearly from a comparison of the European countries washed by the English Channel, the Northern Ocean, and the Baltic, with those which shut in the Mediterranean. Has it not been necessary, because of their carelessness and insolvency, to establish a financial guardianship over Tunis, Egypt, Turkey, and Greece in turn ? In like fashion, have Portugal, Italy, and Spain, each in its own way, ill rewarded their foreign friends for that confidence which proved its sincerity by furnishing supplies of capital in such abundance.

At the present moment the condition of Spain is worthy of special attention ; and, even if attention be confined to monetary questions alone—as is the design of the present paper—there are useful lessons to be drawn by impartial students from Spanish blunders and their results. The penalty has, moreover, been so grievous that even in addressing her conquerors we may

express sympathy with unfortunate Spain, and offer our sincere admiration to those of her children who have generously sacrificed themselves in a hopeless cause.

The monetary circulation of Spain—the subject of this study—consists of two elements which have simultaneously been vitiated by the selfsame causes. For greater clearness, we shall discuss first the metallic money and secondly, the note currency, of the country.

I.

METALLIC MONEY.

The monetary history of Spain, like its political history, is characterized by the striking contrast between former glories and present decay. After the discovery and subjugation of the New World by the *Conquistadores* a monopoly of the precious metals seemed to be almost assured to the successors of Ferdinand and Isabella. This situation, too, was the more enviable because the Middle Ages had left the supply of gold and silver throughout Europe very scanty. The Spanish, in the first place, laid violent hands on the treasures accumulated in the temples and palaces over-sea; later, they appropriated to themselves all the mines of Mexico and Peru. Charles V, in farming out these mines, reserved to himself a fifth of the product (*derecho de los quintos*), and, in order to assure to the mines the services of experienced workmen, he went so far as to suspend the exploitation of the mines of the mother country. The imperial or royal galleons came home every year with cargoes that grew progressively richer. Unfortunately, Spain showed herself less anxious to make productive use of this booty than to preserve it from foreign covetousness by prohibiting the export of gold and silver. These millions which might have been made so fruitful remained unproductive; and, for that very reason, it was not long before Spain found it necessary to reconcile herself to a division with others. The specie of the Peninsula was exported to the most distant markets—gold

onzas and doubloons, silver douros or piasters, with the corresponding fractional money—all that varied mass of coins which the investigations of Aloiss Heiss have so skillfully restored to recognition.¹

Scarcely had the Mexican silver left the mine when it received the government stamp and, from 1537 to 1821, at which latter date occurred the definite emancipation of Mexico, the issues put forth under these conditions had reached an enormous figure—more than 2000 millions of dollars. The large Spanish pesos, with or without the two symbolic pillars stamped upon them, for a great while enjoyed universal favor, and even now they are still to be met with in many hands, circulating side by side with the Mexican dollars properly so-called (which bear as device an eagle and a Phrygian cap). Some Polynesian tribes use these old *colonados* as their regular medium of exchange, and they aggregated more than half of the sum contained in the twenty-five coffers of coined silver which General Galieni recently shipped from the palace of the ex-queen of Madagascar to the Paris mint.

During the past three-quarters of a century the monetary expansion of Spain has been considerably decreased, and that for a very good reason. There remain to the country only its own domestic mineral resources, and these furnish no more metal than is sufficient for international payments. The Iberian peninsula has no gold mines, or, at all events, has them no longer. True, there are mines of a certain sort which produce silver or silver-bearing lead; but the 180,000 kilograms of fine silver, yielded by these mines in 1896, do not represent so much as a tenth of the annual output of the United States.

Deprived of the greater portion of her colonial domain and long since wholly occupied with destructive internal feuds, Spain would have consulted her own welfare had she abandoned her policy of isolation, and had she of her own accord refused to accept the Pyrenees as the limit of her industrial, as they are of her

¹ ALOISS HEISS, *Descripcion general de las monedas hispano-cristianas desde la invasion de los Arabes*, Madrid, 1865.

geographic, horizon—a limit which has ordinarily been injurious rather than helpful. The nation should, beyond a question, have harmonized its monetary system with that of its neighbors, and that, too, without delay, but the anger, which had been aroused by the armed intervention of Napoleon I upon various occasions, was still too strong not to make such a resolution difficult of execution. Three several times, in 1848, in 1857, and in 1864, did the ministers of Queen Isabella II set themselves the task of remodeling, from a more modern point of view, the ancient monetary structure, dating from 1772 and 1824, without reconstructing its foundations, though it would have been better worth while to have rebuilt it entire, at once.

The law of April 15, 1848, altered the ratio of gold to silver from 16.50 to 15.77. A uniform fineness—that of .900—was substituted for the former grade of fineness, which varied from .875 for gold coins to .902 and .8125 for silver. The coinage system actually adopted still failed to conform to the decimal scale. However, the value of the gold doubloon, weighing a trifle more than the English sovereign (8.336 grams), and valued slightly higher (25 fr. 84 c.), was fixed at 100 times that of the silver real.

The royal ordinance of February 13, 1854, decreased still further the value of gold relatively to that of silver, by lowering the ratio to 15.48 instead of 15.77. Subsequent to the discovery of the placer mines of California and Australia, there was a tendency to establish a premium on silver—a condition of things which certainly is not the case at the present moment—and there came a time when it was profitable to export or convert into bullion, not only the largest silver coins, but also those of lesser value. It was to take measures of self-defense against the speculative operations upon their circulation of fractional silver that France, Italy, Switzerland, and Belgium concluded to lower the fineness of their subsidiary coins; and it is a matter of general knowledge that the mutual understanding established for this purpose was the origin of the Latin Monetary Union. To protect herself against the same danger, Spain resorted to a

similar remedy. Harmony with the monetary system of other nations was, however, still avoided, and, by the terms of the law, June 26, 1864, the piaster and the half-piaster retained, as did the gold coin, a fineness of .900; while the fineness of the peseta (4 reals), the half-peseta (2 reals), and the real, was decreased to .810, the fineness and the function of standard coin being thus transferred from the real to the ten-real piece.

As we all know, issues of coins followed one another, but without any general character of uniformity. Summing up the coinage of the years 1849 to 1868, we find that it amounts to nearly 1000 million francs; and the statisticians of thirty years ago admitted that the actual coin circulation of the kingdom—new and old coinages included—could not be less than 800 millions of francs; 650 millions of this amount being gold, 120 millions silver, and the remainder copper. Nothing, however, could have been less uniform than this body of coin. It included ninety-seven different monetary units which enjoyed general currency, besides a mass of coin whose devices had become indistinguishable, a large volume of foreign coin, and an enormous sum of counterfeits.

The monetary revolution which followed upon the heels of the political revolution of September 1868 (when occurred the flight of Queen Isabella and the overthrow of the Bourbons), at first only aggravated the situation, even though the principle on which it was based was a wise one. The notion of international uniformity had rapidly gained ground, even in Spain, subsequent to the establishment of the Latin Union (1865), and the World's Exposition at Paris (1867). Opinion at Madrid, however, halted between the English system with the single gold standard on the one hand, and the French system with its double standard, on the other. Inasmuch as the fall of the Bourbon dynasty rendered necessary the adoption of new devices for the coins, M. Figuerola, the finance minister of the provisional government, considered the moment an opportune one for the taking of some step, and a decree, bearing date October 12, 1868, announced that the system just instituted by the Latin Union should thereafter be put into operation in Spain.

The new plan comprised several important features, a rigid adherence to a decimal scale, a double standard of gold and silver with a ratio of $15\frac{1}{2} : 1$, a fineness of .900 for gold coins and for silver five-franc pieces, a fineness of .835 for fractional silver and free coinage of gold and of the silver five-franc piece.

This was the logical solution of the problem, but something more than logic was now needed to put the project into effect. Had the measure been taken at a favorable moment, the administration would not have forced upon itself the disagreeable choice between recoining an immense mass of money or leaving the most heterogeneous kinds of money to circulate without law or order. On the other hand, admission to the Latin Union, as anticipated and desired, would have been effected quite naturally; and, when bad times came on, Spain would have derived from this expansion of her monetary market, the very considerable advantages by which Italy has more than once profited. At the time of their introduction, however, the reform measures were tardy and by mischance coincided in point of time with the outbreak of a political and financial crisis which threatened to endanger the quiet of the country, its industrial life, and even its honor; for Spanish obligations, on which the government had pledged its faith to the money-lenders, were again upon the point of going to protest.

By the terms of the laws and decree of 1868 (Art. 6) the device to be borne by the new coins was to represent "Spain with the arms and symbols representative of national sovereignty." A contest for the draughting of suggested designs was opened on January 12, 1869. The decision was to be announced in March and the successful artist was to be allowed until August 12 to engrave and furnish to the government his stamps and dies. In order not to interrupt the coinage during this long period, the mint was authorized to continue temporarily the issue of the old royal coins of 1868; but in consequence of the protests which at once made themselves heard, it was then ordered by two decrees bearing date of February 5 and March 12, 1869, that the design of the medal about to be

engraved in commemoration of the events of September, should be used in the manufacture of fractional coin. Besides this, it was decreed that the system of the Latin Monetary Union was not to become compulsory until January 1, 1877, and thereafter; and, in consequence of the continuance of the general disorder, the coinage of gold continued to take place until 1873 on the old plan of the law of 1864 (denominations of one hundred and of forty reals); despite the fact that, subsequent to 1869, the issues of silver were made under the plan elaborated in the new regulations.¹

In the meantime a decree of March 21, 1871, had substituted for the twenty-peseta gold piece (whose coinage has since been resumed) a twenty-five peseta piece more closely resembling the old doubloon. As a matter of fact, the new system did not assume shape in complete fashion until 1876. How violent had been the turmoils through which the nation had had to struggle during this brief period! The regency of Serrano, the passing candidature of Prince Leopold of Hohenzollern, the depressing rule of Amadeus of Savoy, the republic, in the person first of Figueras, then of Pi y Margall, Salmeron, Castelar, and of Serrano, in turn, followed one another in rapid succession; finally, in 1875, came the restoration of the fallen dynasty, then represented by Alfonso XII, and now by his son, a twelve-year-old child.

France herself had likewise passed through some terrible changes of fortune; and, if she offered better resistance than Spain, this was due to the fact that she was endowed with truly unequalled vitality. The notes of the Bank of France, during the seven or eight years when they were irredeemable, had suffered no depreciation even at the worst moments, either of the foreign war or of the civil struggle—a fact perhaps unique in history.

The quality of irredeemability had likewise been given to the note circulation in Italy and in Greece; and had in these coun-

¹See the memoir presented January 26, 1890, to the Academy of Moral and Political Sciences of Madrid by Don Raimondo Fernandez Villaverde.

tries proven itself far less innocent in its effects than had been the case in France.

The Latin Union thus found itself subjected to a strain which its originators had not anticipated ; and which, without going so far as to break this species of monetary syndicate, rendered its further extension undesirable. Spain—her vitality sapped by years of anarchy, deficit-ridden, and discredited by her progressive failures—was no longer a desirable candidate for membership. She was obliged to relinquish all hopes of being admitted as an integral part of the Union when the fall of silver subsequent to 1873 began to disturb the equilibrium, relative at least, upon which all bimetallic systems had relied. Germany had been the first to pass over to the gold standard—as Austria-Hungary, Russia, and Japan have since done—and she began to relieve herself of her thalers. In order not to furnish an escape-pipe for all this mass of depreciated metal which was seeking an outlet, the Latin Union was obliged to adopt a defensive policy; and the coinage of silver five-franc pieces was therefore first limited and then ceased. The last of these coins which fell from the machines of the Paris mint bear the date of 1878.

These facts are familiar, but it is worth while to recall them, because they explain the isolation in which, from a monetary point of view, Spain has continued to exist in despite of all that she had done to escape from it. It is true that France at the present day receives Spanish gold into its public treasuries (decision of February 15, 1891), but not Spanish silver; and it is only by abuse that five-franc pieces bearing the likeness of Alfonso XII and Alfonso XIII have occasionally succeeded in mixing themselves to a large extent with French coins in the south of France and especially in Algeria.

This isolation, which by force of circumstances has been thrust upon Spain, could not as a matter of fact be an evil without any compensating element; for the nation thus preserved entire freedom of action, and, had its financial condition been better, had the ideas of its statesmen been more harmonious, it would have been able at the desired moment to conform its

monetary system to an appropriate model. Unfortunately, the weight of obligations under which it was laboring had already compelled it to export the larger part of its gold. From 1868-9 to 1872-3 Spain had coined about 328 millions of gold in the older forms. From 1876-7 to 1880-1 there had been coined 800 million francs in alfonso (coins of the denomination of twenty-five pesetas). Of this sum 500 millions must be placed to the account of recoinage, 300 millions being struck from new gold. Unfortunately, this whole mass of coin disappeared from the country. At the start, the gold alfonso had been unfavorably received abroad because their fineness was a trifle too uncertain (averaging .896 instead of .900 for all dates prior to 1879). The methods of coinage, however, were quickly improved and the process of exportation went on all the more rapidly. Dating from 1881, the gold-standard party not being able to carry its point, the issues of gold were materially decreased (amounting only to 260 millions of gold in seventeen years). Whether composed of Spanish or other gold, the gold reserve of the Bank of Spain, at the opening of 1898, did not exceed 236 million francs; but had increased to 273 millions on October 15.¹ Outside of the bank the yellow metal has become exceedingly hard to find, and is hoarded. Very different was the situation in regard to silver. Far from decreasing, the coinage of silver was unfortunately rendered only the more active by the growing depreciation. It is now more than twenty years since the state deprived individuals of the vicious privilege of causing for their own private profit a piece of silver purchased for four francs, three francs, or two francs fifty centimes, to be transformed into a coin stamped five pesetas. The state has, however, reserved to itself without a scruple the exercise of this tempting power; and, in availing itself of it, has abused it again and again. Alone among the nations of Europe, Spain went through the hollow farce of ignoring the fact that silver is a metal which has become unfitted for monetary uses. The silver

¹ Spain a short time since purchased of the Bank of France a large amount of gold ten-franc pieces. The ten-franc piece is, in general, seldom exported.

coins struck on the national account during the past thirty years, represent an aggregate nominal value of more than a thousand millions of pesetas, to wit :

						Millions of Pesetas
From 1868-9 to 1877-8,	-	-	-	-	-	390
From 1878-9 to 1887-8,	-	-	-	-	-	310
From 1888-9 to 1897-8,	-	-	-	-	-	350
Total from 1868-9 to 1897-8,	-	-	-	-	-	1050

The fractional issues, still more profitable than the standard coins because of their lower fineness, aggregate 212.5 millions of this total—an amount unquestionably very excessive for a population of less than twenty million souls. The same disproportion is to be observed in the issues of the smaller token coins.

The table above given extends only to June 30, 1898. Since that date, the coinage of silver has been still further accelerated, for it is learned from the repeated declarations of the Spanish government itself, that during the past summer the Madrid mint, working night and day, delivered daily a million pesetas. These precipitate issues, which are still in progress and which have exerted a perceptible influence upon the price of bar-silver,¹ have not prevented the silver reserve of the Bank of Spain from decreasing by one-half. In 1894, 1895, 1896, and 1897 it stood at the close of the year at 276, 256, 255, and 258 millions respectively, but on October 15, 1898, it had fallen to 131 millions.

What is, above all, a fact of especial gravity is that these millions are, to tell the truth, nothing but half-millions; and inasmuch as this point really touches the heart of the situation it is worth while to insist a little upon it.

Among the numerous kinds of "silver dollars" now in circulation in the world there are certain sorts which, by their own acknowledgment, are no more than silver ingots stamped with

¹ The price of the ounce of standard silver in London varied during the spring between 25 and 26 pence. Since the war 27 pence has been a minimum quotation and in September the price rose above 28 pence.

an official mark which certifies their weight, fineness, and origin. They are in no wise legally connected with the gold coins, and their value slavishly follows the varying upward or downward movements of the quotation of the metal in its bullion form, without of course conforming to the slight fluctuations arising from the daily play of the forces of supply and demand. As examples of these independent trade dollars might be cited the Mexican dollar, the thaler of Maria Theresa, the talari of Menelik, the French piaster used in Indo-China, the British dollar, etc.

On the other hand, there are some coins which so far as composition goes, resemble those just mentioned, but which behave quite differently in so far as they are media of exchange. Among these might be enumerated the dollar of the United States, the French silver five-franc piece, the English crown, the Russian rouble, and the German thaler. Without being subject to the same conditions, these diverse coins have this feature in common, that in the state whose name they bear they possess legal-tender quality, as representing a specified fraction of the value of a standard gold coin, and that the law thus assures to them, upon their native territory, an invariable purchasing power. Regarded as pieces of metal, four French five-franc pieces are not worth so much as ten francs in gold; but the silver five-franc piece, the coinage of which was suspended twenty years ago, maintains its position with reference to gold, and no one in France, or even in the neighboring countries, would dream of thinking himself better off with a gold Napoleon in his possession than with four French five-franc pieces.

Somewhat the same state of things ought to have existed in Spain, for Spain has adopted the French system. That, however, has not been the case; for inasmuch as the fall in the price of silver which led in France to the suspension of the coinage of the silver five-franc piece, has in Spain, on the contrary, hurried forward the issues more quickly, the Spanish five-franc pieces have increased out of all proportion and have rapidly

depreciated. In Spain, as everywhere else, Gresham's law has been obeyed. Good money, that is to say gold, has taken its departure; the other sort, in the process of accumulation, has become more and more doubtful in value, and the five-peseta piece is now nothing more than a mere counter which has lost something like one-half of its nominal value in all places where debtors are unable to call in the power of the law for the purpose of forcing upon their creditors the acceptance of a coin of fictitious value.

When war and defeat made their appearance, the five-peseta piece, like the paper pesetas of which we shall presently speak, was seen to vary more and more widely in purchasing power from the gold peseta. Not only did the value of coined silver come in this way to approximate that of silver in its bullion form, but the rise of the exchanges at a certain moment resulted in an anomalous situation; for the royal impress, instead of adding something to the market price of the metal, decreased it still further, and this to such an extent that speculators, as in the time (now long since bygone) when silver stood at a premium, were able to see a profit to be gained by withdrawing from circulation these despised coins for the purpose of melting and exporting them. This phenomenon seems extraordinary and has been only temporary. The law of June 1, 1898, however, establishes belief in the fact by its preamble, and even by the mere clause which "prohibits for the time being" the exportation of silver to foreign countries, either in the form of coin or of bullion. It would be hard to imagine, in the whole range of monetary phenomena, a more depressing and disgraceful situation than that the value of a silver coin of full fineness should fall below that of the silver bullion it contains, when silver bullion itself is at a discount of 55 per cent.

We should now have finished the discussion of Spain's metallic money did it not remain to express at this point, in the interest of Spain herself, the hope that the Spanish authorities, as soon as they are no longer engaged in battling with the difficulties of the present moment, will seize the opportunity to

declare war in good earnest upon counterfeiting. Counterfeiters are to be found in all countries, but this profitable occupation is nowhere pursued with so much energy and success as in Spain, where it has long been handed down as a regular business. Barcelona is for the manufacture of counterfeit money what Lyons is for silk-stuffs. The business of counterfeiting is there carried on both for the domestic and the foreign market. There are in existence large volumes of counterfeit coins, bearing the Spanish imprint, of gold, silver, and even of bronze, and the business of counterfeiting has been carried so far that the customs department uses it as an argument against the admission into the kingdom of sous which have been exported. The Catalonian coiner, however, finds his highest profit in imitating the five-franc pieces of the Latin Union, and especially those issued by France. The fact that this coin has lost its bullion value, but has kept its monetary value, endows it with what from the counterfeiter's point of view is a double merit. It goes without saying that the Spanish government never refuses its coöperation for the purpose of apprehending guilty individuals when there is moral certainty and evidence against them. As a matter of fact, however, this form of safe highway robbery has never been fought with the persistence and strength of will with which one must be armed to ensure success.

II.

NOTE CIRCULATION.

The Spanish nation, which, in the course of centuries, has had the handling of so vast a volume of gold and silver, has not the least natural liking for paper currency. Even now, in certain provinces, if a buyer should attempt to settle for the purchase of a couple of sheep or a cask of wine by the offer of a bank note, the peasant, educated or uneducated, would suppose that a joke was being perpetrated upon him. The existence of a note currency fluctuating and depreciating in value, is nevertheless, not without precedent in Spain. At the end of the eighteenth cen-

tury King Charles III had had printed some *vales* and later some *medios vales*, the issues of which were very soon inflated to a ridiculous degree (222 millions of piaster). They very soon lost 25 per cent. in value, and the principal object of the creation of the Bank of San Carlos was the redemption of these Spanish greenbacks. Itself ruined by the excessive loans which it was forced to grant to the royal treasury, the Bank of San Carlos was reorganized as the Bank of San Fernando and finally became the National Bank of Spain,¹ a strong institution which has constantly grown in importance, but has as constantly declined in wisdom of management. Monopoly privileges in the issue of notes were not conferred upon this institution until 1874, and a mere reference to the political and financial situation prevailing at that time is enough to explain how it was that the question of obtaining means for the treasury had a strong tendency, in the process of working out the new system, to take precedence of any proper care for the national credit. The monopoly privileges were granted for thirty years. The law and decree of March 19, 1874, placed the capital at 100 millions of pesetas, with permission to increase this capital to 150 millions—a step which was taken in November 1882. This amount is divided into 300,000 personal shares of 500 pesetas each. To begin with, it was provided that 150 millions should be at once advanced to the treasury; and, to neutralize the effect produced by this first demand—likely as it was to be followed by others—it was stipulated by Article 11 of the decree that there should be no other loans of the same sort not secured by “substantial and quickly convertible” collateral—an elastic phrase much more likely to produce distrust than to stimulate faith that a firm resolution had been taken. The temptation was an irresistible one, given the perpetual embarrassments of the treasury; and to trace the course which has been followed during a period which has, nevertheless, been less troublous than some others, it suffices to draw the following comparisons:

¹ See the learned monograph published in 1890 at Madrid, on the Bank of Spain, by Mr. J. R. Romero.

Date	(Millions of pesetas)				
	Reserve	Bills and notes	Loans	Circulation	
End of December 1874, - -	54	71	...		72
End of December 1882, -	102	157	193		334
End of December 1890, - -	233	402	251		734

It thus appears that the note circulation had, eight years ago, reached the point which it had been forbidden to exceed. It might be supposed that the increase of the note currency up to this point was a result of the needs of trade. This, however, was far from being the case. The expansion was the result of the needs of the state, for the administration had fallen into the habit of treating the national bank as its creature and had found the institution only too obedient to the repeated calls of the treasury, owing to the fact that to shortsighted stockholders it seems like a great windfall that they are able to charge interest, more or less excessive in amount, upon millions which seem to them to have cost nothing to obtain. The business world had therefore already begun, in consequence of this alarming policy, to show less confidence in the notes than at the outset. Although supposed to be redeemable in gold, it had not been long before noteholders had found themselves paid, at the offices of the bank, only in silver. Besides this, nothing was neglected to dissuade noteholders from presenting them. Branches refused to redeem any except certain specified sorts of notes and orders were given to pay out, in redeeming the notes, not merely the silver five-franc pieces, but also as much fractional, and even low token, coin as possible. A necessary result of these awkward subterfuges was naturally that the influence of the bank had to suffer. The notes continued at par in gold so long as the circulation did not amount to 300 millions of pesetas, that is to say, until 1881; and this goes far to establish the belief that a note circulation, if limited in amount, may pass through times of serious disturbance without depreciating; for it was in 1876 that Spain had definitely recognized a semi-repudiation of her government bonds and the latest measures for refunding the public debt date from 1881. The first signs of disapproval made their appearance at about the same date and contemporaneously an unfavorable state

of foreign exchange became chronic, although as yet only to a moderate degree. This loss on foreign exchange amounted to 1.80 per cent. in 1883 (average for the year), 1.20 in 1884, 2.50 in 1885, 2.20 in 1886, 0.82 in 1887, and 1.68 in 1888. Had the public powers been wise enough to avail themselves of this warning, nothing need have been lost. The fiscal deficits, however, only went on increasing. Casting up these deficits as they ought always to be estimated, that is to say, by setting off the total amount of expenses against the total receipts, and paying no attention to the more or less subtle modifications which would result from an application of financial laws, it is to be observed that these annual deficits progressively increase from less than 30 million pesetas before 1885 to more than 100 millions from 1890 onward, and that, too, during a period of complete peace.

The crowning blunder, which prepared the way for the most intense crisis Spain had yet experienced, was committed in 1891. It will be a heavy burden on the memory of M. Canovas del Castillo; and if we feel free to refer to it here, it is only because French science did not wait until the fatal period of disaster had arrived, before warning Spain not to persevere in a course which was certain to lead to ruin.¹

A few words will suffice to explain the content of the law of July 14, 1891, which the Parliament, sick at heart, passed only after an opposition absolutely unwonted in Spain. By this measure all the opportunities afforded to the government to compromise the future of the country were doubled.

The charter of the Bank of Spain was extended to December 31, 1921, and the limit to its note issues was raised from 750 millions of pesetas to 1500 millions, with the inadequate stipulation that the metallic reserve, whether in coin or bullion, must

¹ The rebellion of the island of Cuba had not yet broken out when M. Paul Leroy-Beaulieu, in his masterly *Traité théorique et pratique d'économie politique*, condemned, with evidence in support of his opinion, the "madness" of the policy pursued by the Canovas ministry. In the *Économiste français* for August 27 last he wrote, with the same degree of conviction and with the same wisdom, as follows: "Much is said in denunciation of the present Spanish ministry, but the man who really dug the grave for Spanish greatness was M. Canovas, who, in point of financial ignorance and presumption, has by far surpassed the limits allowed to a modern head of the state."

always amount to a sum equal at least to one-third of the notes in circulation, it being required that one-half of this third be held in gold. An amount equal to the remainder of the circulation and of the demand liabilities of the bank was to be covered by bills and notes receivable and by the loans of the institution; but it was provided that these latter items should "continue to be construed to include the 4 per cent. amortisable *rentes*, the shares of the company to which the tobacco taxes had been farmed out, those obligations of the treasury which, in accordance with the law of April 22, 1887, have been endorsed by this company, and lastly the bonds and obligations of the treasury representing the floating debt and issued pursuant to the provisions of the law of June 13, 1888." Besides this, the bank at the very outset was to make a further loan to the government of a sum of 150 millions of pesetas without interest, repayment of which was not to be demanded before the expiration of the charter. The duties of a finance minister would indeed be easy, even in a debt-ridden state, if it were possible with impunity permanently to employ a method of coining money which consists in filling the vaults of a bank with long-time obligations and in drawing from it in exchange, in the form of notes, the millions of revenue needed or desired. But it was impossible that such abuses should go unpunished, and paper money itself seems to have assumed the duty of chastising those who systematically make of it an *instrumentum regni*; for it is no sooner overissued than its value suddenly melts away in the market like snow under the rays of the sun.

It has been seen that the average rate of loss on foreign exchange did not exceed 0.82 per cent. in 1887. This was doubled in 1888 (rising to 1.68 per cent.); was again doubled in 1889 (3.25); repeated the process in 1891 (6.56); and more than doubled again in 1892 (15.42), although the issues of notes had not yet reached 900 millions of pesetas.

From 1895 on, this loss of one-sixth became a minimum while events were preparing for the crash of 1898. It will be worth while to give at this point in concise form a somewhat

more accurate statement of the fluctuations of Spanish exchange. These are represented in the following table, which gives these variations for the four years preceding that of the Spanish-American war.

Quotations of exchange at the beginning of each month :

VALUE IN FRANCE OF 100 PESETAS IN SPANISH BANK NOTES.¹

Month				1894	1895	1896	1897
January,	-	-	-	81.50	89.49	82.71	80.59
February,	-	-	-	81.40	89.94	82.71	80.60
March,	-	-	-	81.70	91.81	83.72	78.27
April,	-	-	-	83.02	89.38	83.72	76.36
May,	-	-	-	82.31	87.56	85.22	77.56
June,	-	-	-	82.26	87.36	84.53	77.46
July,	-	-	-	82.31	86.45	84.53	76.86
August,	-	-	-	81.50	84.63	83.52	76.25
September,	-	-	-	83.02	85.54	83.52	76.05
October,	-	-	-	83.93	85.44	82.41	77.16
November,	-	-	-	85.54	84.58	78.37	74.94
December,	-	-	-	89.83	84.43	80.00	75.04

Volume of notes in circulation at end of each year (millions of pesetas), - - - -

910 996 1033 1206

It thus appears that more than 1000 millions of notes have been superimposed upon the 1000 millions of coined silver which Spain was unwise enough to put into circulation. In order to let us see how artificial in its character was this flood of notes, an examination of the report presented to the general assembly of stockholders of the bank in March 1897 will be sufficient. The statement for February 27, 1897, showed the existence of a circulation of 1060 millions of pesetas, against a reserve in gold of 213 millions and a reserve in silver of 270 millions, commercial bills receivable amounting only to 203 millions, "loans" to the amount of 233 millions, 293 millions of 4 per cent. amortisable *rentes*, and 266 millions of treasury warrants. The deficit

¹ The quotations presented in this table are, for each month, the first of the regular weekly quotations published by the *Économiste européen*.

in the budget, after having stood at 100 millions for each of the five previous years, had fallen to 42 millions in 1894-5 and to 21 millions in 1895-6. But, beginning in 1896-7, the double colonial war, in which Spain began once more to exhaust herself, increased the deficit to 200 millions, and this was but a beginning.

We shall now discuss the year which has proved so unfortunate for Spain and we shall show how Spanish exchange has behaved before, during, and subsequent to, the decisive conflict. It goes without saying that there is no longer any quality of redeemability in the notes; the forced circulation is in full swing. On the other hand, the legal maximum of 1500 millions is about to disappear. Beginning with May 1898, the royal government obtained, among other powers and resources extraordinary, the authority to raise the legal maximum issue to 2500 millions whenever it might deem expedient; and a decree to that effect was signed in August. The increase of the circulation remains, it is true, subject to that of the reserve,¹ but this is no more than a mere promise. In any case, the bank would have no more use for the mountains of silver five-franc pieces intended for it than for the volumes of obligations which go on increasing a floating debt which already amounts to 1000 millions; or than for the packages of bonds which continue to add beyond all reason to a funded debt of 6000 millions (8000 if the colonial debt be included).

With this preface, the weekly and monthly quotations of exchange may now be stated as follows:

By a series of blunders and misfortunes not to have been expected, we thus see unfortunate Spain reduced to the humiliating condition where, when she says to a piece of paper: "You are worth 25 pesetas the same as a gold alfonso," this bit of paper protests of its own free will and replies: "No, I am worth scarcely half that sum." In the dejected ranks of states whose

¹ The reserve of gold and silver is supposed to amount to at least one-half of the note-circulation when this circulation shall exceed 1500 millions, but not exceed 2000; and to two-thirds whenever the sum of 2000 millions is overpassed.

COURSE OF EXCHANGE AT THE MIDDLE OF EACH WEEK.

(1898) Month	Value in France of 100 pesetas in Spanish bank notes					Amount of the circulation at the end of each month (millions of pesetas)
	First week	Second week	Third week	Fourth week	Fifth week	
January	74.94	74.84	74.94	74.94	....	1235
February	75.14	74.94	75.04	74.43	....	1249
March	74.13	71.91	71.61	71.10	70.39	1256
April	70.09	68.07	61.35	56.81	....	1290
May	47.39	55.24	52.91	54.86	....	1305
June	54.70	55.86	53.76	53.19	54.94	1322
July	54.05	58.47	58.13	58.13	....	1384
August	59.90	65.90	61.91	60.06	....	1394
September	60.69	61.49	61.53	64.20	63.89	1409
October	66.75	64.75				

unit of value is depreciated we see Spain take up her position in advance of the Argentine Republic and of Brazil but behind Italy, Chile, Greece, and Portugal.¹ Spanish paper money, like Spanish silver coin, is now no more than a sort of algebraic variable always fluctuating, always uncertain, delivered over to the caprices of daily rising or falling, and generally of falling, quotations.

We must not forget that there are on both sides of the Atlantic certain persons whose theories, and actual proposals, have as an ideal a state of things where there is a great deal of money in circulation, too much money even—as much money as possible, whatever be its quality. Some reasoners will even tell us, or rather have a thousand times told us, that one source of a nation's superiority lies in the use of a currency inferior in quality to that employed by countries competing with it. May it not be that the bimetallic leagues will be tempted to use, as an argument in support of their favorite thesis, the upward swing which Spanish trade with foreign countries seems to have taken since 1895?

¹ According to latest advices (October 13) the depreciation in foreign exchange amounted to 8 per cent. on Italian, 23 per cent. on Chilean, 31 per cent. on Greek, 32 per cent. on Portuguese, 35 per cent. on Spanish, 60 per cent. on Argentine, and 67 per cent. on Brazilian paper.

The following table is of a kind likely to give them pleasure :

FOREIGN TRADE OF SPAIN.

Year	(Millions of pesetas)		Excess of	
	Imports	Exports	Imports	Exports
1891	901	911	..	10
1892	799	716	83	..
1893	751	697	54	..
1894	779	669	110	..
1895	704	693	11	..
1896	749	892	..	143
1897	793	925	..	132

But, beside the fact that the very fall in the value of the peseta itself explains a part of this movement, it must be borne in mind that Spanish statistics include, in these totals, both the imports and the exports of the precious metals coined and uncoined and that exportation finds in this way a source of increase which would scarcely afford ground for self-congratulation.

GOLD AND SILVER IMPORTED AND EXPORTED.

Year	(Millions of pesetas)		Excess of	
	Imports	Exports	Imports	Exports
1895	25	42	..	17
1896	103	140	..	37
1897	144	172	..	28

Furthermore, were the argument to be advanced that there was in fact an increase in sales and a decrease in purchases, the reply would naturally be made that this is, unfortunately, what occurs in the case of any commercial house that is obliged to go into liquidation. There are already in Spain some prices whose rise has been in proportion to the decline in the value of the monetary unit. In the case of some others this return to an equilibrium is not yet an accomplished fact. It is likely that workmen who were receiving two pesetas a day when the peseta stood at par are not now receiving three although the peseta has lost one-third of its value. Owing to this cause the cost of production of certain articles may have been lightened. This, how-

ever, could be only a temporary phenomenon and in any event we could scarcely recognize an economy realized at the expense of laborers as an economic benefit. The most striking illustration of existing evils is found in the situation of the railway companies and it is from a study of these companies that we may see to best advantage all the injury that may be worked through the pretended benefits of bad money.

Spanish railways are exclusively the work of French engineers and of French capital. France has devoted to them capital to the amount of 2000 millions of francs. Now, inasmuch as it has been, by the terms of the law, forbidden to increase the rates which can be charged on passengers and freight, the result is that the companies, although they have to pay the interest upon their capital in standard money, must receive their income in bad money which suffers a progressively increasing depreciation. The just complaints of the roads having never produced any effect, despite the fact that the government has more than once held out hopes to them, the outcome has been that not only is there no longer any dividend for distribution to stockholders, but the North-Spain Railway Company, for instance, has been forced to refuse to the holders of its obligations full payment of what was due them. If we compare current quotations with those which ruled in 1881, it appears that the stock of the North-Spain Railway Company has fallen from 725 francs to 77, while the first-mortgage bonds have sunk from 363 francs to 222. No doubt the traveler who reaches Irun or Portbou on the Spanish frontier with gold in his pocket is well pleased to know that his twenty-franc piece when exchanged for pesetas will, under existing circumstances, carry him over more kilometers on the railways of the peninsula than it would otherwise have done; but no intelligent man will fail to recognize that this is but a very slight offset to the bad turn which Spain has in this way, during a period of ten years or more, served those who trusted her. "We have here," says M. Raphael-Georges Lévy¹

¹ See in the *Annales de l'École des Sciences Politiques*, 1897, the monograph by M. Lévy upon Spanish Finance.

with much truth, "as clear a demonstration as one could ask of the results of the depreciation of Spanish exchange—results which may be termed disastrous." At all events we should consider far from enviable the situation of a country where undertakings of public import were so hampered by state regulations as to make it impossible for them to meet their obligations.

In view of all this, it is but too plain that Spain is the first victim of the financial aberrations of certain persons who seem to have resurrected for current use the old plate from which were printed the assignats. It requires no more than an elementary computation to see that in a country, where there are already about 1000 millions of notes in circulation, the government, by increasing this volume by a tenth (if it consequently increases the loss on exchange by 10 per cent.) likewise adds 100 millions additional to its debt without increasing the value of its paper. In order to act honorably, it is necessary that Spain should some day put itself in condition to redeem at par both all the depreciated notes with which it has filled its vaults, and all the warrants, obligations, and bonds which have been used in guaranteeing the issue of the notes. Such a total liquidation, in the course of which the treasury would be required to pay back on all sides more than it had received, would require an enormous exertion. Let us not ask the impossible. Let us only beg the royal government to count among the most pressing of its duties, national and international, the rehabilitation of the Bank of Spain, which is ready to sink beneath the weight of the burdens with which the state has overloaded it. In order permanently to restore it, it is necessary to bring about a contraction of the note currency by at least 50 per cent., and to preface this step by the restoration of the peseta to full standing, for the purpose of preserving the public credit. The true interests of the United States are here precisely similar to those of Spain. In Madrid as in Washington, the motto of those who govern ought to be: Sound Money.

A. DE FOVILLE.